Again using Tariff Commission data we can note the bias in another way. The converted rate on the basket category for dyes was 72%. The rate on ASP basis was 40%, indicating a relationship of 1.8:1 between ASP and export value. On that basis, using 1.00 as export value, ASP would be 1.80 and duty (ASP basis) would be .72. Assuming insurance and freight of 5% of export value and commissions of 10% of landed value[14] the selling price of an import would be 1.95 made up as below:

Export value	1.00
Duty	.72
Insurance and freight	.05
Commission	.18
Selling price	1.95

This is between 8 and 9 percent higher than ASP and would seem to preclude sales of imports. Yet imports did enter the country. A logical conclusion would seem to be that the converted rate is too low.

IV. CONCLUSIONS

Faced with a serious and persistent balance of payments deficit, the United States has through erroneous assumptions as to commercial superiority and equality of concession as well as by ignoring the changing economic environment, bargained ineffectively in the Kennedy Round and proposes to eliminate ASP too cheaply and inaccurately.

As I have had occasion to argue elsewhere[15] and as is implied in the first part of this testimony, successive Administrations have predicated the entire balance of payments program on the mistaken expectation that this country's merchandise trade balance would soon expand to provide balance of payments equilibrium. It is time to recognize that sometime between 1958 and 1964 the era of across-the-board dominance of world merchandise trade by the United States came to an end. This does not refer to the mounting deficits themselves or even the shrinking trade surplus since 1964 but rather to the fact that we are no longer a monopoly department store for the world's needs in goods. The United States has become a nation whose most significant competitive advantage is service exports—finance, technology, organizational and managerial know-how—along with those merchandise exports heavily dependent upon research—computers, aircraft, electronic equipment. This is not to argue that an expanded merchandise trade surplus is unimportant, for such is critical in the present international scene. But trade cannot help in the absence of a far more aggressive approach to trade policy.

The invalid assumptions which led to the expectation of a substantial widening of the merchandise trade surplus were doubly damaging because they led to further actions which were both shortsighted in terms of U.S. international economic strength and in terms of trade flows themselves. I here refer to controls on capital movements, particularly direct foreign investment.

Direct foreign investment has been a major positive factor in the U.S. balance of payments throughout the postwar period as is shown in Table VII.

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[14] Based on industry source.

[15] *The National Banking Review,* Vol. 4, No. 3, pp. 283–9 (March 1967); *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policies,* Committee on Finance, United States Senate, Vol. 2, pp. 652–61 (1968).